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Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Property, Plant and Equipment - Oil and gas properties - Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are measured by depleting the assets on a unit-of-production basis ("depletion") and are evaluated for impairment using the future net cash flows of the underlying proved and probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate the depletion and impairment requires management to make significant estimates and assumptions related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required

auditor judgement in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs used to measure oil and gas properties included the following, among others:

- With the assistance of fair value specialists,
    - Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.
    - Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.

- Evaluated the Company's independent reservoir engineer by:
    - Examining reports and assessing their scope of work and findings.
    - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

- Performed a retrospective review to evaluate management's ability to accurately forecast and to assess for indications of estimation bias over time.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Mandeep Singh.

Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

March 2, 2021

Peyto Exploration & Development Corp.

Consolidated Balance Sheets

(Amounts in $ thousands)

	December 31 2020	December 31 2019
Assets		
Current assets		
Cash	9,310	6,185
Accounts receivable (*Note 12)*	56,445	61,343
Prepaid expenses	16,896	12,737
	82,651	80,265
Long-term derivative financial instruments *(Note 14)*	6,475	-
Property, plant and equipment, net *(Note 3)*	3,511,931	3,516,915
	3,518,406	3,516,915
	3,601,057	3,597,180
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	87,342	103,627
Dividends payable *(Note 7)*	1,649	3,297
Current portion of lease obligation *(Note 6)*	1,107	981
Derivative financial instruments *(Note 14)*	4,962	5,537
	95,060	113,442
Long-term debt *(Note 4)*	1,170,000	1,120,000
Long-term derivative financial instruments (Note 14)	-	552
Decommissioning provision (Note 5)	182,456	165,513
Lease obligation *(Note 6)*	6,563	7,757
Deferred income taxes *(Note 13)*	469,505	475,999
	1,828,524	1,769,821
Equity		
Shareholders' capital *(Note 7)*	1,649,635	1,649,369
Contributed surplus (*Note 11)*	10,487	4,462
Retained earnings	12,727	63,122
Accumulated other comprehensive income (loss)	4,624	(3,036)
	1,677,473	1,713,917
	3,601,057	3,597,180

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Consolidated Income Statements

(Amounts in $ thousands)

	Year ended December 31	
	2020	2019
Revenue		
Natural gas and natural gas liquid sales (*Note 12)*	388,930	461,548
Royalties	(22,014)	(13,653)
Sales of natural gas from third parties	11,060	8,133
Natural gas and natural gas liquid sales, net of royalties	**377,976**	456,028
Realized gain on derivative financial instruments *(Note 14)*	51	28,274
Unrealized loss on derivative financial instruments (*Note 14)*	(2,345)	-
Other income	259	-
Total revenue, other income, and derivative financial instruments	**375,941**	484,302
Expenses		
Natural gas purchased from third parties	10,338	6,893
Operating (*Note 8)*	60,636	59,674
Transportation	29,002	33,168
General and administrative	6,729	7,883
Reserves-based bonus *(Note 10)*	-	2,291
Stock based compensation *(Note 11)*	6,080	4,462
Interest *(Note 9)*	58,871	53,553
Accretion of decommissioning provision *(Note 5)*	3,372	2,865
Loss on disposition of capital assets	1,871	-
Depletion, depreciation, and impairment *(Note 3)*	243,380	243,583
	420,279	414,372
Earnings (loss) before taxes	**(44,338)**	69,930
Income tax		
Deferred income tax (recovery) *(Note 13)*	(8,783)	(63,565)
Earnings (loss) for the year	**(35,555)**	133,495
Earnings (loss) per share *(Note 7)*		
Basic and diluted	**($0.22)**	$0.81
Weighted average number of common shares outstanding *(Note 7)*		
Basic and Diluted	**164,894,920**	164,874,175

Peyto Exploration & Development Corp.

Consolidated Statements of Comprehensive Income

(Amounts in $ thousands)

	Year ended December 31	
	2020	2019
Earnings for the year	**(35,555)**	133,495
Other comprehensive income		
Change in unrealized gain (loss) on derivative financial instruments	6,476	(56,577)
Deferred tax (expense) recovery	(2,288)	21,030
Realized loss (gain) on derivative financial instruments	3,472	(28,274)
Comprehensive (loss) Income	**(27,895)**	69,674

Peyto Exploration & Development Corp.

Consolidated Statements of Changes in Equity

(Amounts in $ thousands)

	Year ended December 31	
	2020	2019
Shareholders' capital, Beginning of Year	**1,649,369**	1,649,537
Common shares issued under stock option plan	266	-
Stock option issuance costs (net of tax)	-	(168)
Shareholders' capital, End of Year	**1,649,635**	1,649,369

Contributed surplus, Beginning of Year	**4,462**	-
Stock-based compensation expense	6,080	4,462
Recognized under stock-based compensation plans	(55)	-
Contributed surplus, End of Year	**10,487**	4,462

Retained earnings (deficit), Beginning of Year	**63,122**	(29,860)
Impact of change in accounting policy	-	(943)
Earnings for the year	(35,555)	133,495
Dividends *(Note 7)*	(14,840)	(39,570)
Retained earnings (deficit), End of Year	**12,727**	63,122

Accumulated other comprehensive income (loss), Beginning of Year	**(3,036)**	60,785
Other comprehensive income (loss)	7,660	(63,821)
Accumulated other comprehensive income (loss), End of Year	**4,624**	(3,036)

Total Equity	**1,677,473**	1,713,917

Peyto Exploration & Development Corp.

Consolidated Statements of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2020	2019
Cash provided by (used in)		
Operating activities		
Earnings (loss)	(35,555)	133,495
Items not requiring cash:		
Deferred income tax (recovery)	(8,783)	(63,565)
Depletion and depreciation, and impairment	243,380	243,583
Loss on disposition of capital assets	1,871	
Accretion of decommissioning provision	3,372	2,865
Stock-based compensation	6,080	4,462
Unrealized loss on derivative financial instruments	2,345	-
Change in non-cash working capital related to operating activities	(9,657)	(3,904)
	203,053	316,936
Financing activities		
Bank overdraft	-	(19,281)
Stock option issuance costs	-	(225)
Common shares issued under stock option plan	211	-
Cash dividends paid	(16,488)	(46,165)
Lease interest *(Note 6)*	286	322
Principal repayment of lease *(Note 6)*	(1,354)	(1,354)
Increase in bank debt	50,000	175,000
Repayment of senior notes	-	(205,000)
	32,655	(96,703)
Investing activities		
Additions to property, plant and equipment	(235,703)	(206,431)
Change in prepaid capital	10,477	3,423
Change in non-cash working capital relating to investing activities	(7,357)	(11,040)
	(232,583)	(214,048)
Net increase in cash	3,125	6,185
Cash, beginning of year	6,185	-
Cash, end of year	**9,310**	**6,185**

The following amounts are included in Cash flows from operating activities:

Cash interest paid	**59,994**	56,914
Cash taxes paid	-	-

1. Nature of operations

Peyto Exploration & Development Corp and its subsidiary (together "Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 2, 2021.

2. Basis of presentation

These consolidated financial statements ("consolidated financial statements") as at and for the years ended December 31, 2020 and December 31, 2019 represent the Company's results and financial position in accordance with International Financial Reporting Standards ("IFRS").

a) Summary of significant accounting policies

The precise determination of many assets and liabilities is dependent upon future events and the preparation of periodic consolidated financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's basis of presentation as disclosed.

b) Significant accounting estimates and judgements

The timely preparation of the consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential.

At the same time, the Organization of Petroleum Exporting Countries ("OPEC"), and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced commodity prices.

In subsequent months, agreements have been made between OPEC, Russia, and other oil-producing countries around the world that have reduced global crude oil production and brought the oversupply closer into balance with demand. Crude oil prices have partially recovered from the historic lows observed earlier in 2020, but price support from future demand remains uncertain. Efforts to re-open local economies and international borders around the globe resulted in varying degrees of virus outbreak. Many countries have now re-imposed restrictions as regions experience a second wave of COVID-19, often with higher rates of infection than the first wave. Vaccination programs have begun around the world, however the pace with which vaccines are administered is dependent on the supply access and logistics organized by individual nations. There remains uncertainty about the future supply of and demand for oil and natural gas.

In addition to the impact on commodity prices and commodity sales from production amounts, the effects of COVID-19 have created other uncertainties in the crude oil and natural gas industry, including increased counterparty credit risk and decreased valuation of long-lived crude oil and natural gas assets and goodwill. At December 31, 2020, Management

has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

Depletion and Recoverability of oil & gas properties

Depletion, reserve-based bonus and recoverability of oil & gas properties are based on estimates of proved plus probable reserves and future development costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and production costs, required capital expenditures and the related future cash flows are subject to measurement uncertainty, and the impact in the consolidated financial statements of future periods could be material.

The recoverability of oil & gas properties carrying values is assessed at the CGU level. The determination of cash generating units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU are determined by, shared infrastructure, commodity type, similar exposure to market risks and materiality.

In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. Management has determined that Peyto's asset base represents one CGU. The properties contained in the CGU are in close proximity to each other, with similar cost structure and marketing arrangements. Peyto applies information on estimates of future commodity prices, expected production volumes, quantity of reserves and resources, future development costs, future operating costs, discount rates and income taxes when determining an acceptable range of recoverable amounts.

Oil & gas properties are reviewed for impairment at a CGU level quarterly or when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("FVLCD") or its value in use ("VIU"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCD is the amount that would be realized from the disposition of an asset or CGU in an arm's length transaction between knowledgeable and willing parties. FVLCD is based on the discounted after-tax cash flows of reserves using forward prices and costs, consistent with Company's independent qualified reserves evaluators and may consider an evaluation of comparable asset transactions.

Key estimates used in determining cash flows from the Company's reserves include:

- Reserves- Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Crude oil and natural gas prices- Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate- The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Decommissioning provision

Decommissioning provision is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities is reliant upon forward prices. Any change in the forward price curves could result in a change to the estimated valuation of the instruments.

Stock-based compensation
All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Income Taxes
Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgement. Deferred tax liabilities are recognized when it is considered probable that the tax on temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the regulations and legislation may result in a material increase or decrease in Company's provision for income taxes.

c) Presentation currency
All amounts in these consolidated financial statements are expressed in Canadian dollars, as this is the functional and presentation currency of the Company.

d) Cash Equivalents
Cash equivalents include term deposits or a similar type of instrument, with a maturity of three months or less when purchased.

e) Jointly controlled operations and assets
Certain activities of the Company are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Peyto reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

Processing and gathering recoveries related to joint operations reduces operating expenses.

f) Exploration and evaluation assets
Pre-license costs
Costs incurred prior to obtaining the legal right to explore for hydrocarbon resources are expensed in the period in which they are incurred. The Company has no pre-license costs.

Exploration and evaluation costs
Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. All such costs are subject to technical feasibility, commercial viability and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. The Company has no exploration or evaluation assets.

g) Property, plant and equipment
All property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment charges.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning provision and borrowing costs for qualifying assets. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Costs include expenditures on the construction, installation or completion of infrastructure such as well sites, pipelines and facilities including activities such as drilling, completion and tie-in costs, equipment and installation costs, associated geological and human resource costs, including unsuccessful development or delineation wells.

Oil and natural gas asset swaps
For exchanges or parts of exchanges that involve assets, the exchange is accounted for at fair value. Assets are then de-recognized at their current carrying amount.

Depletion and depreciation
Oil and natural gas properties are depleted on a unit-of-production basis over proved plus probable reserves. All costs related to oil and natural gas properties (net of salvage value) and estimated costs of future development of proved plus probable undeveloped reserves are depleted using the unit-of-production method based on proved plus probable reserves as determined by independent reservoir engineers. For purposes of the depletion calculation, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Gas processing facilities are depreciated using a declining balance method over useful life of 20 years.

h) Corporate assets
Corporate assets not related to oil and natural gas exploration and development activities are recorded at historical costs and depreciated over their useful life. These assets are not significant or material in nature.

i) Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of fair value less costs to sell or value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of a CGU. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a after- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Impairment charges of continuing operations are recognized in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment charges may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depletion, had no impairment charge been recognized for the asset in prior years.

j) Lease obligations and right of use assets

A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset ("ROU") is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Peyto does not recognize leases for short-term leases with a lease term of 12 months or less, or leases for low-value assets.

ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on lease assets is recognized in depletion, depreciation, and amortization expense.

k) Financial instruments

The Company has classified each financial instrument into the following categories: "Amortized Cost, Fair Value through Other Comprehensive Income and Fair Value through Profit and Loss". On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

The Company has made the following classifications:

Financial Assets & Liabilities	**Category**
Cash	Fair value through profit or loss
Accounts Receivable	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Dividends Payable	Amortized cost
Long Term Debt	Amortized cost
Derivative Financial Instruments (non-hedged)	Fair value through profit or loss ("FVTPL")
Derivative Financial Instruments (hedged)	Fair value through other comprehensive income ("FVOCI")

Impairment of Financial Assets
Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Peyto and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized in the statements of income.

Derivative financial instruments

Derivative financial instruments are utilized by the Company to manage economic risk to market risk against volatility in commodity prices. All derivative financial instruments are initiated within the guidelines of the Company's risk management policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company's policy is not to utilize derivative instruments for speculative purposes. The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

All derivative financial instruments, other than those designated as effective hedging instruments, are classified as FVTPL and are recorded at fair value. Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the consolidated balance sheets as either an asset or liability with changes in fair value recognized in earnings (loss) as unrealized gain or loss on derivative financial instruments. Realized gains and losses on these instruments are recorded in the consolidated income statements in the period they occur. Derivative instruments that have been designated as effective hedging instruments are further classified as either fair value or cash flow hedges (see "Hedging").

Embedded derivatives
An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, a credit rating or credit index, or other variables to be treated as a financial derivative. The Company has no contracts containing embedded derivatives.

Normal purchase or sale exemption
Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32

Financial Instruments: Presentation ("IAS 32"), which is known as the 'normal purchase or sale exemption'. The Company recognizes such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

l) Hedging

At the inception of a derivative transaction, if the Company elects to use hedge accounting, formal designation and documentation is required. The documentation must include: identification of the hedged item or transaction, the hedging instrument, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item.

A hedge is assessed at inception and at the end of each reporting period to ensure that it is highly effective in offsetting changes in fair values or cash flows of the hedged item. For a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in net loss with the offsetting gain or loss on the hedged item. When fair value hedge accounting is discontinued, the carrying amount of the hedging instrument is deferred and amortized to net loss over the remaining maturity of the hedged item.

For a cash flow hedge, the effective portion of the gain or loss is recorded in other comprehensive income. Any hedge or portion of a hedge that is ineffective is immediately recognized in net loss. Hedge accounting is discontinued on a prospective basis when the hedging relationship no longer qualifies for hedge accounting. Any gain or loss on the hedging instrument resulting from the discontinuation of a cash flow hedge is deferred in other comprehensive income until the forecasted transaction date. If the forecasted transaction date is no longer expected to occur, the gain or loss is recognized in net loss in the period of discontinuation.

The Company has chosen to designate its existing derivative financial instruments as cash flow hedges.

m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of producing oil and natural gas is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

n) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Decommissioning provision

Decommissioning provision is recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a risk-free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment.

The decommissioning provision represents the present value of the decommissioning costs related to oil & gas properties, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company's internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon

the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

o) Taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Canada.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
The Company follows the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred income tax assets are only recognized to the extent it is probable that sufficient future taxable income will be available to allow the deferred income tax asset to be realized. Accumulated deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in earnings in the period that the change occurs, except for items recognized in equity.

p) Revenue recognition

Revenue associated with the sale of natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Peyto satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession.

Peyto principally satisfies its performance obligations at a point in time. Joint venture partners are not considered customers and therefore processing and gathering recoveries related to joint operations are netted against operating expenses.

At times, Peyto may purchase commodity products from third parties to fulfill sales commitments; Peyto subsequently sells these products to its customers. These transactions are presented as sales and purchases of natural gas from third parties on the statements of income.

q) Gains and losses on disposition
For all dispositions, either through sale or exchange, gains and losses are calculated as the difference between the sale or exchange value in the transaction and the carrying amount of the assets disposed. Gains and losses on disposition are recognized in earnings in the same period as the transaction date.

r) Borrowing costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use, which is when they are capable of commercial production. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

s) Share-based payments
Peyto has three share-based plans: market-based bonus, stock options and deferred share units. Each share-based compensation plan is equity-settled. Compensation expense associated with equity-settled awards is determined based

on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

The Black Scholes model is used to value the equity settled awards. The model incorporates the period-end share price, expected life, dividends, volatility, discount rate and managements estimate around forfeitures.

t) Earnings per share

Basic earnings per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive common shares related to the Company's share-based compensation plans which could have a dilutive impact on earnings during the year. The number of shares included is computed using the treasury stock method, whereby the common shares are assumed to be purchased at the average market price.

u) Share capital

Common shares are classified within equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from Share capital.

v) Government Grants

Government grants are recognized when there is reasonable assurance that Peyto will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

3. Property, plant and equipment

Cost	
At December 31, 2018	**5,691,372**
Additions	205,455
ROU asset	8,070
Decommissioning provision additions	8,793
Prepaid capital	(3,423)
At December 31, 2019	**5,910,267**
Additions	234,621
Decommissioning provision additions	13,571
Prepaid capital	(10,447)
At December 31, 2020	**6,148,012**

Accumulated depletion and depreciation	
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	(242,608)
At December 31, 2019	**(2,393,352)**
Depletion and depreciation	(239,129)
Impairment	(79,700)
Impairment recovery, net of depletion	76,100
At December 31, 2020	**(2,636,081)**

Carrying amount at December 31, 2019	3,516,915
Carrying amount at December 31, 2020	**3,511,931**

At December 31, 2019, there were indicators of impairment identified and therefore a test was performed. No impairment was recognized as the estimated recoverable amount of the CGU exceeded it carrying value.

The benchmark prices used in the Company’s forecast at December 31, 2019 are outlined as follows:

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn$/MMBtu)	2.05	2.32	2.60	2.69	2.81	2.94	3.00

	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US$/MMBtu)	2.50	2.75	3.00	3.15	3.25	3.35	3.42
Cdn$/US$ (1)	0.76	0.77	0.78	0.80	0.80	0.80	0.80

	2020	2021	2022	2023	2024	2025	2026
WTI (US$/BBL)	61.00	64.50	66.50	68.20	69.90	71.50	73.50
Cdn$/US$ (1)	0.76	0.77	0.78	0.80	0.80	0.80	0.80

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective December 31, 2019.

During 2020 Peyto capitalized $7.4 million (2019 - $7.6 million) of general and administrative expense directly attributable to exploration and development activities.

At March 31, 2020, the Company identified two indicators of impairment:

1) The decrease in demand for crude oil due to the COVID-19 pandemic, and the adequacy of supply management efforts by the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC partners to address such dramatic changes. These factors lead to a decrease in the outlook of commodity prices in the North American market.
2) A decrease in Peyto’s market capitalization relative to the carrying value of its net assets since the date of its last impairment test.

At March 31, 2020, the Company performed an impairment test using after-tax discounted future cash flows of proved and probable reserves, utilizing a discount rate of 10% after tax. In estimating the recoverable amount, the fair value less costs of disposal method was used.

The benchmark prices used in the Company’s forecast at March 31, 2020 are as follows

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn$/MMBtu)	1.90	2.26	2.38	2.47	2.55	2.63	2.69

	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US$/MMBtu)	2.10	2.60	2.80	2.90	3.00	3.10	3.16
Cdn$/US$ (1)	0.71	0.73	0.75	0.75	0.75	0.75	0.75

	2020	2021	2022	2023	2024	2025	2026
WTI (US$/BBL)	31.00	42.00	50.00	55.00	58.00	59.16	60.34
Cdn$/US$ (1)	0.71	0.73	0.75	0.75	0.75	0.75	0.75

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective March 31, 2020.

Prices subsequent to 2037 have been adjusted for estimated annual inflation of 2%.

As a result of the impairment test performed as at March 31, 2020, the Company recorded an impairment charge of $79.7 million as depreciation, depletion, and impairment.

At December 31, 2020 there were no indicators of impairment however with the increase in the outlook of future oil and natural gas prices as well as an increase in the market capitalization since March 31, 2020 indicators of impairment reversal were identified. The Company carried out a recovery test for its ("CGU”). A recovery of $76.1 million net of depletion was recognized as depreciation, depletion, and impairment. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital of 10 per cent after tax.

The benchmark prices used in the Company’s forecast at December 31, 2020 are as follows:

	2021	2022	2023	2024	2025	2026	2027
AECO natural gas (Cdn$/MMBtu)	2.80	2.71	2.62	2.67	2.73	2.78	2.84

	2021	2022	2023	2024	2025	2026	2027
Henry Hub (US$/MMBtu)	2.85	2.91	2.97	3.02	3.08	3.15	3.21
Cdn$/US$ (1)	0.77	0.77	0.77	0.77	0.77	0.77	0.77

WTI (US$/BBL)	48.00	51.00	54.00	55.08	56.18	57.13	58.45
Cdn$/US$ (1)	0.77	0.77	0.77	0.77	0.77	0.77	0.77

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective December 31, 2020.

Prices subsequent to 2037 have been adjusted for estimated annual inflation of 2%.

All else being equal, a 1% increase in the assumed discount rate or a 10% decrease in future planned cash flows would not result in an impairment for the years ended December 31, 2020.

Subsequent to December 31, 2020, the Company acquired a gas processing facility, 106 net producing wells and undeveloped land for $35 million.

4. Current and long-term debt

	December 31, 2020	December 31, 2019
Bank credit facility	755,000	705,000
Long-term senior Secured notes	415,000	415,000
Balance, end of the year	**1,170,000**	1,120,000

On June 29, 2020, the Company finalized an agreement with its syndicate of lenders and term debt note holders to revise its credit and note purchase agreements to reflect a reduction in the size of its credit facility and provide financial covenant relief until March 2022. The credit facility and long-term notes are now secured by a floating debenture on Peyto's consolidated total assets.

The Company has a syndicated $950 million extendible secured revolving credit facility with a stated term date of October 13, 2022. The bank facility is made up of a $40 million working capital sub-tranche and a $910 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 200 basis points and 600 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 50 to 150 basis points.

The Company has received relief from its previous financial covenants with respect to senior and total debt to EBITDA and interest coverage until March 2022. Peyto is subject to the following financial covenants as set forth in the June 29, 2020 amended credit facility and note purchase agreements:

Total Debt to EBITDA

Fiscal Quarter ended	Limit
December 31, 2020	Less than 5.75
March 31, 2021	Less than 5.50
June 30, 2021	Less than 5.00
September 30, 2021	Less than 4.75
December 31, 2021	Less than 4.50
March 31, 2022	Less than 4.25
June 30, 2022 and thereafter	Less than 4.00

Senior Debt to EBITDA

Fiscal Quarter ended	Limit
December 31, 2020	Less than 5.25
March 31, 2021	Less than 5.00
June 30, 2021	Less than 4.50
September 30, 2021	Less than 4.25
December 31, 2021	Less than 4.00
March 31, 2022	Less than 3.75
June 30, 2022 and thereafter	Less than 3.50

Interest Coverage Ratio

EBITDA to be greater than 2.50:1:00 up to and including the Fiscal Quarter ending December 31, 2021; and 3.00:1.00 for each Fiscal Quarter thereafter.

Total Debt to Capitalization Ratio

Total Debt not to exceed 55% of shareholders' equity and total debt.

Peyto's financial covenants include financial measures defined within our revolving credit facility agreement that are not defined under IFRS. These financial measures are defined by our amended credit facility agreement as follows:

- Total Debt: includes long-term debt and subordinated debt plus bank overdraft and letters of credit.
- Senior Debt: includes long-term debt plus bank overdraft and letters of credit.
- EBITDA: trailing twelve-month net income before non-cash items, interest, and income taxes.

Outstanding senior notes are as follows:

Senior Secured Notes	**Date Issued**	**Rate***	**Maturity Date**
$50 million	September 6, 2012	4.88%	September 6, 2022
$100 million	October 24, 2016	3.70%	October 24, 2023
$65 million	May 1, 2015	4.26%	May 1, 2025
$100 million	January 3, 2012	4.39%	January 3, 2026
$100 million	January 2, 2018	3.95%	January 2, 2028

* In any fiscal quarter where senior debt to EBITDA exceeds 3.0x, the interest rate on the notes will increase by a range of 85 basis points to 285 basis points.

Peyto is in compliance with all financial covenants at December 31, 2020.

Total interest expense for 2020 was $58.9 million (2019 - $53.6 million) and the weighted average borrowing rate for 2020 was 5.10% (2019 – 4.6%).

5. Decommissioning provision

The Company makes provision for the future cost of decommissioning wells and facilities on a discounted basis based on the timing of abandonment and reclamation of these assets.

The Company has estimated the net present value of its total decommissioning provision to be $182.5 million as at December 31, 2020 (2019 – $165.5 million) based on a total escalated future undiscounted liability of $337.3 million (2019 – $327.6 million). At December 31, 2020 management estimates that these payments are expected to be made over the next 50 years (2019 – 50 years) with the majority of payments being made in years 2024 to 2070. The Bank of Canada's long-term bond rate of 2.00 per cent (2019 – 2.22 per cent) and an inflation rate of 2.0 per cent (2019 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2018	**153,855**
New or increased provisions	5,253
Accretion of discount	2,865
Change in discount rate and estimates	3,540
Balance, December 31, 2019	**165,513**
New or increased provisions	5,265
Accretion of discount	3,372
Change in discount rate and estimates	8,306
Balance, December 31, 2020	**182,456**
Current	-
Non-current	**182,456**

6. Leases

The ROU asset and lease obligation recognized at January 1, 2019 relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at December 31, 2019	**7,061**
Depreciation	(1,009)
Balance at December 31, 2020	**6,052**

The ROU asset is included in Property plant & equipment, refer to Note 3.

Lease Obligation

Lease obligation at December 31, 2019	**8,738**
Lease interest expense	286
Principal repayment of lease	(1,354)
Lease obligation at December 31, 2020	**7,670**
Current portion of lease obligation at December 31, 2020	**1,107**
Non-current portion of lease obligation at December 31, 2020	**6,563**

The variable lease payments not included in the measurement of the office lease obligation is $0.8 million for the period ended December 31, 2020. The variable lease payments are recognized through general and administration expense.

During the period ended December 31, 2020, $19.0 million (2019- $15.1 million) was recorded in property, plant, and equipment in relation to short-term leases.
The following sets forth future commitments associated with its lease obligation:

	As at December 31, 2020
Less than 1 year	1,354
1-3 years	4,286
4-5 years	2,857
Total lease payment	8,497
Amount representing interest	(827)
Present value of lease payments	7,670
Current portion of lease obligation	1,107
Non-current portion of lease obligation	6,563

7. Equity

Share capital
Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount $
Balance, December 31, 2018	**164,874,175**	**1,649,537**
Stock option issuance costs (net of tax)	-	(168)
Balance, December 31, 2019	**164,874,175**	**1,649,369**
Common shares issued	66,800	266
Balance, December 31, 2020	**164,940,975**	**1,649,635**

Per share amounts
Basic and dilutive earnings per share have been calculated based upon the weighted average number of basic common shares outstanding.

	As at December 31	
	2020	2019
Weighted average common shares basic and diluted	**164,894,920**	164,874,175

Dividends
During the year ended December 31, 2020, Peyto declared and paid dividends of $14.8 million (2019 - $39.6 million).

Dividends declared	**2020**	2019
January	**0.02**	0.02
February	**0.02**	0.02
March	**0.02**	0.02
April	**-**	0.02
May	**-**	0.02
June	**0.01**	0.02
July	**-**	0.02
August	**-**	0.02
September	**0.01**	0.02
October	**-**	0.02
November	**-**	0.02
December	**0.01**	0.02
Total	**$0.09**	$0.24

8. Operating expenses

The Company's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering recoveries related to jointly owned production reduces gross field expenses to Peyto's operating expenses.

	Years ended December 31	
	2020	2019
Gross field expenses	67,985	67,978
Cost recoveries related to processing and gathering of partner production	(7,349)	(8,304)
Total operating expenses	60,636	59,674

9. Interest expense

	Years ended December 31	
	2020	2019
Interest expense	59,871	55,076
Capitalized interest	(1,000)	(1,523)
	58,871	53,553

10. Performance-based compensation

Reserve value-based bonus

The reserve value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8%. The company recognized $nil for 2020 (2019 -$2.3 million).

11. Stock-based compensation

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. In addition, the shareholders of the Company approved the issuance of commons shares to fulfill the Company's obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan will replace the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

Equity compensation arrangements

The following tables summarize the Company's equity compensation arrangements:

		Weighted Average Exercise price $	**Weighted Average Remaining Contractual life-Years**
Rights under market-based bonus plan	726,200	7.23	1.08
Stock options	7,934,202	3.50	1.37

Market based bonus plan

The following tables summarize the rights outstanding under the market-based bonus plan at December 31, 2020:

		Weighted average exercise price $
Balance, December 31, 2019		
Rights under market-based bonus plan granted	**1,551,867**	**7.23**
Forfeited	(99,467)	(7.23)
Vested and cancelled	(726,200)	(7.23)
Balance, December 31, 2020	**726,200**	**7.23**

The Company estimates the fair value of rights under the market-based bonus plan using the Black-Scholes pricing model. During the period ended December 31, 2020 the average fair value per right was $2.99. The following tables summarizes the assumptions used in the Black-Scholes model:

	December 31, 2020
Share price	$7.23
Exercise price (net of dividends)	$7.21
Expected volatility	39.60%
Average life	1 year
Risk-free interest rate	1.85%
Forfeiture rate	0.17%

The outstanding rights will vest on December 31, 2021.

Stock option plans
The following tables summarize the stock options outstanding at December 31, 2020:

		Weighted average exercise price $
Balance, December 31, 2019	**7,572,201**	**3.93**
Stock options granted	3,351,000	2.87
Exercised	(66,800)	3.16
Forfeited	(477,600)	3.61
Expired	(2,444,599)	3.96
Balance, December 31, 2020	**7,934,202**	**3.50**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the period ended December 31, 2020 the weighted-average fair value per option was $1.12. The following tables summarize the assumptions used in the Black-Scholes model:

	December 31, 2020
Share price	$3.02
Exercise price	$3.16
Expected volatility	48.12%
Average option life	2 year
Risk-free interest rate	1.10%
Forfeiture rate	0.17%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

At December 31, 2020, no stock options are exercisable.

The following tables summarize the DSU's outstanding at December 31, 2020:

		Weighted average exercise price $
Balance, December 31, 2019	**-**	**-**
DSU granted	107,564	1.65
Balance December 31, 2020	**107,564**	**1.65**

12. Revenue and receivables

Peyto derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

	Years ended December 31	
	2020	2019
Natural gas sales	261,754	288,381
Natural gas liquid sales	127,176	173,167
Natural gas and natural gas liquid sales	**388,930**	461,548

	December 31, 2020	December 31, 2019
Accounts receivable from customers	52,519	53,248
Accounts receivable from realized derivative financial instruments	766	4
Accounts receivable from joint venture partners and other	3,160	8,091
Accounts Receivable	**56,445**	61,343

13. Income taxes

	2020	**2019**
Earnings before income taxes	**(44,338)**	69,930
Statutory income tax rate	24.00%	26.50%
Expected income taxes	(10,641)	18,531
Increase (decrease) in income taxes from:		
True-up tax pools	65	(133)
Rate change	681	(82,779)
Other	1,112	816
Total income tax (recovery) expense	**(8,783)**	(63,565)

Deferred income tax expense	**(8,783)**	(63,565)
Current income tax expense	-	-
Total income tax expense	**(8,738)**	(63,565)
Differences between tax base and reported amounts for depreciable assets	(564,611)	(519,902)
Derivative financial instruments	(887)	1,517
Share issuance costs	35	411
Provision for decommission provision	41,965	30,685
Charitable donations	28	17
Tax loss carry-forwards recognized	53,965	11,273
Deferred income taxes	**(469,505)**	(475,999)

At December 31, 2020, the Company has tax pools of approximately $1,236.7 million (2019 - $1,210.1 million) available for deduction against future income.

14. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at December 31, 2020 except for derivative financial instruments.

The fair value of the Company's cash and derivative financial instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

- Level 1 – quoted prices in active markets for identical financial instruments.

- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, dividend payable, long term debt and derivative financial instruments. At December 31, 2020 and 2019, cash and derivative financial instruments, are carried at fair value. Accounts receivable and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company's objectives, processes and policies for managing market risks have not changed from the previous year.

Commodity price risk management

Financial derivative instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these contracts with well-established counterparties for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of petroleum and natural gas prices. The Company believes the derivative financial instruments that do apply hedge accounting are effective, both at inception and over the term of the instrument, as the term and notional amount do not exceed the Company's firm commitment or forecasted transactions and the underlying basis of the instruments correlate highly with the Company's exposure.

Following is a summary of all derivative financial instruments in place at December 31, 2020:

Natural Gas Period Hedged- Monthly Index	Type	Daily Volume	Price (AECO CAD/GJ)
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	$1.64 to $1.65
November 1, 2020 to March 31, 2021	Fixed Price	90,000 GJ	$2.36 to $3.05
January 1, 2021 to March 31,2021	Fixed Price	20,000 GJ	$2.40 to $2.70
April 1, 2021 to October 31, 2021	Fixed Price	60,000 GJ	$1.48 to $2.43
November 1, 2021 to March 31, 2022	Fixed Price	80,000 GJ	$2.55 to $3.07
April 1, 2022 to October 31, 2022	Fixed Price	105,000 GJ	$2.13 to $2.26
November 1, 2022 to March 31, 2023	Fixed Price	20,000 GJ	$2.30 to $2.55

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (AECO CAD/GJ)
November 1, 2020 to March 31, 2021	Fixed Price	5,000 GJ	$2.55
January 1, 2021 to March 31, 2021	Fixed Price	5,000 GJ	$2.50
April 1, 2021 to October 31, 2021	Fixed Price	40,000 GJ	$1.64 to $2.45

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Price (Nymex USD/mmbtu)
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	$2.28 to $2.78
May 1, 2020 to March 31, 2021	Fixed Price	20,000 mmbtu	$2.25 to $2.56
November 1, 2020 to March 31, 2021	Fixed Price	152,500 mmbtu	$2.62 to $3.23
April 1, 2021 to October 31, 2021	Fixed Price	177,500 mmbtu	$2.47 to $2.99
November 1, 2021 to March 31, 2022	Fixed Price	77,500 mmbtu	$2.86 to $3.20
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	$2.56 to $2.57

Natural Gas Period Hedged - Malin	Type	Daily Volume	Price (Nymex USD/mmbtu)
November 1, 2021 to March 31, 2022	Fixed Price	10,000 mmbtu	$3.21 to $3.28
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	$2.35

Crude Oil Period Hedged - WTI	Type	Daily Volume	Price (WTI USD/bbl)
January 1, 2021 to March 31, 2021	Fixed Price	2,800 bbl	$40.10 to $46.50
January 1, 2021 to June 30, 2021	Fixed Price	200 bbl	$46.50
April 1, 2021 to June 30, 2021	Fixed Price	900 bbl	$42.50 to $48.25

Propane Period Hedged	Type	Daily Volume	Price (USD/bbl)
October 1, 2020 to March 31, 2021	Fixed Price	1,250 bbl	$20.16 to $21.42
April 1, 2021 to September 30, 2021	Fixed Price	250 bbl	$23.42

Natural Gas Period – Covered Call Options	Type	Daily Volume	Strike Price Nymex USD/mmbtu
April 1, 2021 to October 31, 2021	Call	50,000 mmbtu	$2.75 to $3.15

As at December 31, 2020, Peyto had committed to the future sale of 70,670,000 gigajoules (GJ) of natural gas at an average price of $2.30 per GJ or $2.64 per mcf, 80,102,500 mmbtu at an average price of $2.71 US per mmbtu, 370,100 barrels of crude at an average price of $43.92 US per bbl and 158,250 barrel of propane at an average price of $21.53 US per bbl. Had these contracts closed on December 31, 2020, Peyto would have realized a loss in the amount of $3.9 million. If the gas price on December 31, 2020 were to increase by $0.10/GJ, the unrealized loss would decrease by approximately $33.7 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to December 31, 2020, Peyto entered into the following contracts:

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Price (AECO CAD)
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	$2.50 to $2.63
November 1, 2021 to March 31, 2022	Fixed Price	40,000 GJ	$2.88 to $3.10

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (AECO CAD)
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	$2.50 to $2.55

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Price (Nymex USD/mmbtu)
April 1, 2021 to October 31, 2021	Fixed Price	10,000 mmbtu	$2.77 to $2.85

Natural Gas **Period Hedged - Malin**	**Type**	**Daily Volume**	**Price** **(Nymex USD/mmbtu)**
November 1, 2021 to March 31, 2022	Fixed Price	5,000 mmbtu	$3.30
April 1, 2022 to October 31, 2022	Fixed Price	15,000 mmbtu	$2.35 to $2.40
November 1, 2022 to March 31, 2023	Fixed Price	30,000 mmbtu	$2.90 to $2.96

Crude Oil **Period Hedged - WTI**	**Type**	**Daily Volume**	**Price** **(WTI USD/bbl)**
April 1, 2021 to June 30, 2021	Fixed Price	2,100 bbl	$49.65 to $58.25
April 1, 2021 to December 31, 2021	Fixed Price	600 bbl	$57.50 to $59.00
July 1, 2021 to September 30, 2021	Fixed Price	700 bbl	$51.55 to $56.60
July 1, 2021 to December 31, 2021	Fixed Price	300 bbl	$52.25 to $56.00
October 1, 2021 to December 31, 2021	Fixed Price	700 bbl	$50.60 to $55.05

Propane **Period Hedged**	**Type**	**Daily Volume**	**Price** **(USD/bbl)**
January 1, 2021 to March 31, 2021	Fixed Price	250 bbl	$30.66
February 1, 2021 to March 31, 2021	Fixed Price	500 bbl	$33.60
March 1, 2021 to March 31, 2021	Fixed Price	250 bbl	$37.80
April 1, 2021 to September 30, 2021	Fixed Price	1,250 bbl	$26.25 to $32.76
April 1, 2021 to March 31, 2022	Fixed Price	250 bbl	$26.36
October 1, 2021 to March 31, 2022	Fixed Price	250 bbl	$25.41

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently, the Company has not entered into any agreements to manage this risk. If the weighted average borrowing rate were to increase by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2020 would decrease by $7.4 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

Credit risk

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding $2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2020, approximately 62% was received from three companies (35%,16% and 12%) (December 31, 2019 –66% was received from four companies 14%,10%,20% and 21%). Of the Company's accounts receivable at December 31, 2020, approximately 56% was receivable from four companies (10%, 14%,15% and 17%) (December 31, 2019 approximately 63% was receivable from four companies (11%, 11%,18% and 24%). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2020:

	December 31, 2020	December 31, 2019
Current (less than 30 days)	55,779	58,530
31-60 days	284	1,778
61-90 days	49	743
Over 90 days	333	292
	56,445	61,343

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with counterparties that have investment grade credit ratings.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to high credit-quality financial institutions, which are all members of our syndicated credit facility.

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2020 and 2019, there was no impairment of any of the financial assets of the Company.

Liquidity risk
Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete our existing capital expenditure program, are continuously monitored, and adjusted as input variables change. These variables include, but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to certain losses.

The following are the contractual maturities of financial liabilities as at December 31, 2020:

	< 1 Year	1-2 Years	3-5 Years	Thereafter
Accounts payable and accrued liabilities	87,342	-	-	-
Dividends payable	1,649	-	-	-
Long-term debt[1]	-	-	755,000	-
Secured senior notes	-	150,000	65,000	200,000

(1) Revolving credit facility (*see Note 4*)

Capital disclosures

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue common shares, raise debt, adjust its capital spending or change dividends paid to manage its current and projected debt levels. The Company monitors capital based on the following measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and impairment ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the

management of these ratios, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors.

There were no changes in the Company's approach to capital management from the previous year.

	December 31 2020	**December 31 2019**
Equity	1,677,473	1,713,917
Long-term debt	1,170,000	1,120,000
Working capital deficit	12,409	33,177
	2,859,882	2,867,094

15. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company or the related entities. The dollar value of the transactions between Peyto and the related reporting entities is summarized below:

Expense		Accounts Payable	
Year ended December 31		As at December 31	
2020	2019	**2020**	2019
105.3	254.9	**5.5**	191.5

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors' fees paid to these individuals, the Company also provides compensation in the form of stock options and reserved based bonus to some of these individuals. Compensation expense of $1.9 million is included in general and administrative expenses, $2.7 million in stock-based compensation expense relating to key management personnel for the year 2020 (2019 - $1.7 million is included in general and administrative expenses, $1.9 million in stock-based compensation expense and $1.0 million in reserve-based bonus).

16. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2020:

	2021	2022	2023	2024	2025	Thereafter
Interest payments [(1)]	15,274	17,249	14,809	11,109	9,725	12,070
Transportation commitments	51,730	80,822	52,634	36,112	35,881	352,564
Operating leases	2,125	2,200	2,200	2,200	2,200	2,200
Methanol	2,196	-	-	-	-	-
Total	71,325	100,271	69,643	49,421	47,806	366,834

(1) Fixed interest payments on senior secured notes

Officers

Darren Gee
President and CEO

Kathy Turgeon
Vice President, Finance and CFO

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Engineering and COO

Stephen Chetner
Corporate Secretary

Directors

Don Gray, Chairman
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Kathy Turgeon
John Rossall

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
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